



INTERNAL AUDIT SPECIAL INVESTIGATION CIVIC CENTER

October 15, 2002

Roanoke City Council Audit Committee
Roanoke, Virginia

We have completed an audit of the Roanoke Civic Center. Our audit was performed in accordance with generally accepted government auditing standards.

BACKGROUND

Based on the results of our Data Mining audit, we initiated a separate review of certain aspects of the operations at the Roanoke Civic Center. Those aspects reviewed are detailed in the Purpose section of this report.

The Civic Center is included in the Civic Facilities Fund, along with Victory Stadium. This fund, in fiscal year ending June 30, 2002, had personnel expenditures of \$1,512,183 budgeted for 32 full time equivalent positions. It also had operating expenditures of \$1,910,124 budgeted. In total, Civic Facilities had a \$4.5 million budget in 2002, including internal services and depreciation. The budgeted revenues from operations for 2002 were \$2.9 million and the City budgeted a subsidy from the general fund to Civic Facilities for \$849,000. Civic Facilities operations are markedly different from other city operations due to the nature of its business. It is accounted for as an enterprise fund and has its own accounting function, operations staff, and marketing department. The Civic Center has two distinct lines of accounting: 1) event accounting, and, 2) operational accounting.

Event accounting involves those revenues and expenditures that are generated from events held at the Civic Center. The Civic Center is authorized to have its own bank account titled the "Revolving Account", for purposes of managing event revenues and expenses. Event expenses include paying for stage setup, rigging, lighting, electrical and water service setup, admissions taxes, event staffing, ticket sellers, security, settlement, and other miscellaneous items. The money collected and deposited to the revolving account includes deposits by lessees, receipts from ticket sales, concessions sales, and novelty sales. The Civic Center's Accounting department prepares a settlement sheet at the end of each event that details the revenues and expenses associated with the event. Once agreement on the settlement sheet is reached with the event sponsor, the Civic Center pays the sponsor the agreed upon settlement. Once the Accounting staff is satisfied that all event-related expenses have been paid, they close the event on the Event Business Management System (EBMS) and prepare a collection report detailing the net revenue by source. The Accounting department

remits a check and the collection report to the City Treasurer for deposit into the City's consolidated bank account.

Operational accounting addresses the Civic Center's business activities that are not related to any specific event. This includes purchasing equipment or services for the facility, purchasing supplies, processing the payroll, and remitting net revenues to the City. The Civic Center processes purchases and payroll through the City's Finance department using the City's AMS system. Its financial statements as an enterprise fund are also compiled from the AMS system. The Civic Center utilizes the City's general support and internal service departments such as Human Resources, Purchasing, Technology, and Fleet Management. It adheres to all of the City's regular policies and procedures in conducting its business. Administratively, the Director of Civic Facilities reports to the Assistant City Manager for Operations. The Director of Civic Facilities regularly briefs the Civic Center Commission.

The Civic Center Commission is the policy making body for the Civic Center, as authorized by city code section 24-48. City Council appoints this seven-member Commission, as well as appointing one City Council member who serves as liaison to the Commission. The Commission regularly receives briefings and financial reports prepared by the Director of Civic Facilities and his staff. The Commission has the authority to establish fees, rates, charges, and terms for the use of the Civic Center, as well as other limited authority.

Established in 1971, the Civic Center has always required subsidies from the City's general fund to operate. As part the business strategy established in 1997, the Civic Center has sought ways to enhance existing revenues and reduce expenses. One of the ways it did this was by taking in-house some functions that had previously been contracted out to third parties. Two changes that have been well known are the take over of concession operations and the establishment of a catering service. Management has also tried to generate revenue by bringing event staffing services in-house. Shows require ticket takers, ushers, door guards, and laborers to setup and breakdown equipment. The Civic Center traditionally contracted these services out and passed the cost through settlement to the shows. In 2001, Civic Center management decided to manage this staffing themselves in the hopes that they could generate additional revenues.

PURPOSE

The purpose of this audit was to determine if proper procedures were followed when procuring services, if event contracts were administered in accordance with their stated terms, and if revenues were appropriately classified when recorded by the Civic Center.

SCOPE

Our work focused primarily on existing contracts, and on events held between July 1, 2001 and June 30, 2002. We expanded our test work to include evaluating one contract that was not in effect at the time of the audit that was related to a current contract. We also expanded our test work to look at settlements back through 1997 for one event that is held annually.

METHODOLOGY

We reviewed information from the City's financial systems to identify expenditures and vendors to be reviewed. We interviewed 24 former and current employees of the Civic Center, two vendors, and one consultant used by the Civic Center. We reviewed event settlement files including related contracts, supporting documentation, and accounting records. We reviewed the activity in the revolving account to determine if expenditures from the account were allowable, as defined by city code. We reviewed the minutes for the meetings of the Roanoke Civic Center Commission and evaluated the information provided to the Commission. We also reviewed complimentary ticket logs for adherence to policy. We observed novelty sales at one concert and reviewed novelty revenues reported for a sample of events in 2002. We contacted the International Association of Assembly Managers, Inc. (IAAM) and obtained from its offices, recommended practices for novelties, event contracting, complimentary tickets, and box office operations.

The following administrative procedures and city code sections were used as criteria in evaluating procurement issues: Administrative Procedure: 4.3 "Competitive Negotiation – Professional Services". City code sections 23.1-4.1 "Requirement of Competitive Negotiation", 23.1-10 "Bid Openings; Bid Acceptance and Evaluation", 23.1-20 "Employment Discrimination by Contractor Prohibited", 23.1-20.1 "Drug-free Workplace to be Maintained by Contractor; Required Contract Provisions".

RESULTS

We found that the event settlement files were complete and kept in accordance with section 24-30 of the code of the City of Roanoke. We also evaluated procedures followed by the contractor engaged by the Civic Center to oversee novelties to be satisfactory. Revenue splits negotiated by the Civic Center with the event promoters and the novelties contractor were consistent with industry standards reported by the IAAM.

Finding 01 – Procurement of Part-time Staffing Services

The Civic Center entered into an agreement with an event staffing service in October 2000. This service managed all aspects of hiring, training, and managing staff for events (ticket takers, ushers, laborers to setup and breakdown shows, etc). We determined that this service was not procured in accordance with the City's administrative procedures or local and state laws. Our evaluation is based on the following facts:

- The request for proposal (RFP) was one page in length and contained none of the city's standard provisions, did not specify factors that would be used in evaluating responses, and was not advertised or posted for public notice.
- The RFP instructed respondents to mail or fax their responses to the Civic Center rather than the Purchasing department.

- Based on the information in the RFP, we conservatively valued the service to be worth \$190,000. This is well in excess of the \$75,000 threshold requiring City Council approval. City Council did not approve this contract. Over approximately 11 months in which the vendor was retained (November 2000 through October 2001) the Civic Center paid this vendor \$178,727.
- A written contract was never prepared or signed by the Civic Center. This creates a number of concerns related to liability and insurance issues, pricing and service, payment terms, and required provisions regarding non-discrimination and providing a drug-free work place.

Recommendation 01- Procurement of Part-time Staffing Services

We recommend that the Civic Center consult the Purchasing department on all purchases of services or goods expected to exceed \$10,000.

Management Response 01 – Procurement of Part-time Staffing Services

The agreement with the vendor providing event staffing services was cancelled in August 2001. The Human Resources department, the Finance department, and the City Attorney's office have worked with the Civic Center to evaluate the best way to manage part-time event staffing. The Civic Center is now hiring part-time staff and paying them as city employees.

Finding 02 – Procurement of Event Personnel Services

In September 2001, the Civic Center entered into a new agreement to use a personnel service in place of the staffing service. In this arrangement, the Civic Center hired, managed, and terminated part-time employees to take tickets, usher, setup and breakdown show equipment, manage parking, etc. The vendor agreed to act as the employer, maintaining a personnel file for each employee, processing a biweekly payroll, filing required payroll taxes, and carrying required insurance for workers compensation and general liability. This allowed the Civic Center to hire people much more quickly than would have been possible if it had been required to follow the City's hiring procedures. Civic Center management evaluated this service to be more cost effective than the staffing service and to be an opportunity to earn a profit on providing event staff to shows.

We determined that the procurement of this service was not in accordance with the City's administrative procedures or local laws. This evaluation is based on the following facts:

- A written RFP was not prepared and was therefore not posted for public notice or advertised. The Civic Center's Fiscal Officer solicited proposals by phone and did not maintain notes related to responses. Two faxed responses were on file from

payroll services and were evaluated by Civic Center management to be non-responsive.

- The contract for this service was a three page document, signed by the Director of Civic Facilities. It was prepared by the vendor and did not include the City's standard provisions regarding non-discrimination and maintaining a drug-free work place, as required by city code and state law. The contract was not approved by the City Attorney as to form and it was not approved by the Director of Finance as to funding. Payments under this contract from October 2001 through May 2002 were \$480,200, which exceeds the \$75,000 threshold requiring City Council approval. City Council did not approve this contract. Under the terms of the contract, the vendor charged an 18% service fee on the payroll paid out to cover payroll taxes, its expenses, and profit.
- The City's Risk Manager was not asked to review the general liability and automobile insurance policy prior to the Civic Center accepting this contract. Upon reviewing the contract at the request of the Auditing department, the Risk Manager stated that the "Certificate Holder" box should have been checked to ensure the City of Roanoke would be recognized as additional insured. He would not have approved this insurance policy.
- The terms of the contract related to who hires and manages the employees bring into question whether the vendor or the City would be the legally recognized employer.

Recommendation 02 – Procurement of Event Personnel Services

We recommend that the Civic Center consult the Purchasing department on all purchases of services or goods expected to exceed \$10,000.

Management Response 02 – Procurement of Event Personnel Services

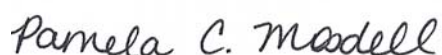
The Civic Center has cancelled its agreement with this vendor. The Human Resources department and the City Attorney's office have worked with the Civic Center to evaluate the best way to manage part-time event staffing. The Civic Center will now hire part-time event staff and pay them as City employees.

We noted other issues during the course of the audit that we either referred to the City Manager's office, or scheduled for additional audit work in this fiscal year. We plan to perform a financial related audit of the Civic Center's event accounting records on an annual basis.

CONCLUSION

Based on the results of our audit work, we do not believe proper procedures were followed when procuring services. We have determined that event contracts were administered in accordance with their stated terms and revenues were appropriately classified when recorded by the Civic Center.

We would like to thank the staff and management at the Civic Center and the City Administration for their assistance and cooperation during the audit.



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